

Network Subsidiaries would be liable under rule 17f-5 (e.g., despite the exercise of reasonable care, Acts of God and the like).

4. With respect to the Agency Custody Arrangements, applicant will enter into a Subcustodian Agreement with each Exemptive Order Network Subsidiary pursuant to which applicant will delegate to the Exemptive Order Network Subsidiary such of applicant's duties and obligations as would be necessary to permit the Exemptive Order Network Subsidiary to hold in custody in the country in which it operates Assets of U.S. Investment Companies or their custodians. Each Subcustodian Agreement will provide an acknowledgement by the applicable Exemptive Order Network Subsidiary that it is acting as a foreign custodian for U.S. Investment Companies pursuant to the terms of the order requested hereby. Each Subcustodian Agreement will also explicitly provide that U.S. Investment Companies or their custodians, as the case may be, that have entered into a Custody Agreement with applicant will be third party beneficiaries of such Subcustodian Agreement, will be entitled to enforce the term thereof and will be entitled to seek relief directly against the applicable Exemptive Order Network Subsidiary so acting as foreign custodian or against applicant.

5. Applicant will attempt to have such Subcustodian Agreement governed by New York law. However, if any Subcustodian Agreement is governed by the local law of the foreign jurisdiction in which the applicable Exemptive Order Network Subsidiary is located, applicant shall obtain an opinion of counsel from such foreign jurisdiction opining as to the enforceability of the rights of a third party beneficiary under the laws of such foreign jurisdiction. Applicant will not utilize Agency Custody Arrangements involving a Subcustodian Agreement governed by the law of a foreign jurisdiction that does not provide for the enforceability of third party beneficiary rights.

6. Applicant currently satisfies and will continue to satisfy the minimum shareholders' equity requirement set forth in rule 17f-5(c)(2)(i).

For the SEC, by the Division of Investment Management, under delegated authority.

Margaret H. McFarland,

Deputy Secretary.

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[Release No. 34-37861; File No. SR-DCC-96-09]

Self-Regulatory Organizations; Delta Clearing Corp.; Order Granting Approval of a Proposed Rule Change Relating to Securities Eligible for Margin

October 24, 1996.

On July 2, 1996, Delta Clearing Corp. ("DCC") filed a proposed rule change (File No. SR-DCC-96-09) with the Securities and Exchange Commission ("Commission") pursuant to section 19(b) of the Securities Exchange Act of 1934 ("Act").¹ On August 16, 1996, DCC filed an amendment to the proposed rule change.² Notice of the proposal was published in the Federal Register on September 12, 1996, to solicit comments from interested persons.³ No comments were received. As discussed below, this order approves the proposed rule change.

I. Description

DCC's proposal expands the permissible forms of margin that may be deposited by participants to include U.S. Treasury notes and bonds. Previously, DCC allowed only U.S. Treasury bills or central bank funds as margin collateral for trades in over-the-counter options and for repurchase and reverse repurchase ("repo") agreements. With respect to options, participants also can continue to post margin in the form of cover (i.e., Treasury securities that would be deliverable upon exercise of an option).

The proposal also changes the haircuts applicable to Treasury securities deposited as margin collateral. Previously, such securities were valued at the lesser of the market value or the par value if deposited as margin for options trades or 95% of the market value of deposited as margin for repo trades. Under the proposal, DCC will use the Commission's schedule for valuation of government securities as set forth in the Commission's uniform net capital rule.⁴

II. Discussion

Section 17A(b)(3)(F) of the Act requires that a clearing agency's rules be designed to ensure the safeguarding of securities and funds in its custody or control or for which it is responsible.⁵

¹ 15 U.S.C. § 78s(b) (1988).

² Letter from John Grebenstein, Executive Director, DCC, to Michele Bianco, Division of Market Regulation, Commission (August 16, 1996).

³ Securities Exchange Act Release No. 37639 (September 4, 1996), 61 FR 48186.

⁴ 17 CFR 240.15c3-1 (1966). The schedule for valuation of government securities is set forth in paragraph (c)(2)(vi)(A)(1) of Rule 15c3-1.

⁵ U.S.C. § 78q-1(b)(3)(F) (1988).

While DCC participants trade and maintain inventory in a wide range of U.S. Treasury Securities, they do not always maintain inventory in U.S. Treasury bills. As a result, participants have incurred costs in meeting DCC's requirements that only U.S. Treasury bills could be posted as margin collateral. By expanding the types of collateral DCC will accept for margin purposes, the likelihood that participants will be able to fulfill their margin obligations from inventory is greatly increased. Furthermore, the combination of the highly liquid nature of U.S. Treasury notes and bonds and the haircuts imposed by DCC should allow DCC to accept these securities as margin collateral without adding additional risk to DCC's clearing and settlement operations.

Conclusion

On the basis of the foregoing, the Commission finds that the proposal is consistent with the requirements of the Act and particularly with Section 17A(b)(3)(F) of the Act and the rules and regulations thereunder.

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,⁶ that the proposed rule change (File No. SR-DCC-96-09) be and hereby is approved.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.⁷

Margaret H. McFarland,

Deputy Secretary.

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[Release No. 34-37859; File No. SR-MSRB-96-10]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Municipal Securities Rulemaking Board Relating to Reports of Sales and Purchases, Pursuant to Rule G-14

October 23, 1996.

On August 29, 1996, the Municipal Securities Rulemaking Board ("Board" or "MSRB") filed with the Securities and Exchange Commission ("Commission" or "SEC") a proposed rule change (File No. SR-MSRB-96-10), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"), 15 U.S.C. § 78s(b)(1). The proposed rule change is described in Items I, II, and III below, which Items have been prepared by the Board. The Commission is publishing this notice to

⁶ 15 U.S.C. § 78s(b)(2) (1988).

⁷ 17 CFR 200.30(a)(12) (1996).